

# Direct Loan 101 – Direct Loan Funding

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## Introductory Funding Definitions

To assist in understanding the Direct Loan funding process, below are some introductory funding definitions for the Common Origination and Disbursement (COD) System and G5.

**Available Balance:** The difference between a school's CFL and net drawdowns. This is the amount of Direct Loan funds available to a school at that point in time. The available balance will change as the CFL changes or as drawdowns are made.

**Current Funding Level (CFL):** The total amount of funds that Federal Student Aid has made available to a school for the year and program in question at any point in time. The CFL is also called the Authorization in G5.

**G5:** The Department of Education's (the Department's) funds management system. Schools use G5 to view current funding information, to refund cash, to request payments and adjust drawdowns.

**Drawdown (Cash Receipt):** A school's request for and subsequent transmission of funds to the school via G5. A drawdown occurs when a school initiates a request for funds through G5, and the funds are transmitted from the U.S. Department of the Treasury to the school's bank account. As a reminder, for Direct Loans, drawdowns are school-specific and award year-specific; drawdowns from one award year can only be used for disbursements in the same award year.

**Drawdown Adjustment:** An adjustment made in G5, where a drawdown is moved from one award year to another award year. Drawdown Adjustments should only be used to correct an error (e.g., mistakenly requesting funds from the wrong award year). **Note:** A Drawdown Adjustment should never be used to move funds from one program, award year, or school for cash management purposes, to closeout a program/award year, or reconcile between award years.

**Net Accepted and Posted Disbursements:** Total actual disbursements [Disbursement Release Indicator (DRI) = True] which have been accepted and posted on the COD System plus accepted actual disbursement adjustments (upward or downward).

**Net Drawdowns/Payments:** Cash Receipts (funds drawn through G5) minus Refunds of Cash (funds returned through G5) minus Returns of Cash (drawdowns rejected by the school's bank). This figure will also include drawdown adjustments.

**Refunds or Refunds of Cash:** Unused or excess cash returned to the Department.

## **Initial Funding**

An advance funded school receives an initial CFL of funds in G5 to meet its initial Direct Loan disbursement needs each award year. Advance funded schools that have historically disbursed early in the processing year receive an initial CFL in March. The remaining advance schools receive an initial CFL in June.

Domestic schools under Reimbursement or Heightened Cash Monitoring 1 or 2 (HCM1 and HCM 2) and foreign schools do not receive an initial CFL. These schools receive a CFL based on actual disbursements submitted and accepted by the COD System.

## **Funding Increases**

Throughout the year CFL increases are initiated in one of the following ways:

- **Scheduled**-The Department initiates CFL increases at scheduled times throughout the year, commonly in March, June, and November.
- **Automatic**-A school's CFL will increase automatically as it reports actual disbursements (DRI = "True") to the COD System. **Example:** On May 2, 2020, a school's financial data reflects the following:

CFL = \$500,000

Net Accepted and Posted Disbursements (NAPD) = \$500,000

Net Drawdowns = \$500,000

Available Balance = \$0

To request additional funds, a school must submit actual disbursement records to trigger an automatic CFL increase and a corresponding increase in the Available Balance. The school submits actual disbursements for \$300,000 to the COD System on May 3, 2020 with an actual disbursement date of May 9, 2020. Once accepted, the school's financial data reflects the following:

CFL = \$800,000

Net Accepted and Posted Disbursements (NAPD) = \$800,000

Net Drawdowns = \$500,000

Available Balance = \$300,000

The school creates a drawdown request in G5 on May 6, 2020 for \$300,000 with a deposit date of May 7, 2020. The school can then credit the student's account on the planned disbursement date of May 9, 2020.

**Note:** To ensure the CFL will cover upcoming disbursements, a school should send actual disbursement records up to 7 calendar days before the disbursement date. The school should make sure the disbursement date reflects the date the funds will be applied to the student's account or made available to the student. If the disbursement date changes, a correction will need to be submitted to COD.

- **Manual-** By contacting COD School Relations Center and requesting an increase to cover upcoming disbursements.

## **Requesting Funds**

To receive Direct Loan funds, a school must log in to the G5 website and request the appropriate amount. When determining the amount of Direct Loan funds to request in G5, a school should consider the following:

### **Cash management rules/Timing of disbursement**

A school must disburse funds to eligible borrowers no more than 3 business days after the Direct Loan funds are received in the school's bank account. A school can report disbursements to the COD System up to 7 calendar days in advance to ensure that the funds are received by the school in time for disbursement. If there is no eligible borrower for which the funds can be disbursed the funds must be returned to G5 within 3 business days.

As a reminder, once the disbursement is made, the school must report it to the COD System within 15 days.

### **Direct Loan funds are award year-specific**

Loans originated for the 2020–21 Award Year should be funded with cash drawn in G5 from award number P268K21#### (# represents a school's unique 4-digit G5 ID). **Note:** If you do not know your school's G5 ID, you can find it in the COD System by clicking on the red "i" icon next to your school's name. Loans originated for the 2019–20 Award Year should be funded with cash drawn from award number P268K20####.

Direct Loan Refunds of Cash are also award year-specific. When returning funds to G5, a school needs to make sure the funds are returned to the correct award year.

### **Direct Loan funds are not student-specific**

If a school requests \$500,000 for the 2020–21 Award Year, the school can disburse these funds to **any** eligible borrowers for that award year.

This also allows some flexibility if a borrower returns money to the school or is no longer eligible for funds due to an R2T4 calculation. The funds do not necessarily have to be returned to G5 if there is another eligible borrower ready for disbursement within 7 calendar days for the same award year (please refer to cash management regulations CFR 34 668.166.)

Direct Loan funds are requested or returned in whole dollars. G5 allows for pennies, but disbursements must be reported to the COD System in whole dollars. In order to avoid reconciliation issues, schools should drawdown funds and make Refunds of Cash in whole dollars.

**Reminder:** A disbursement record reports the date the funds were disbursed to the borrower by posting funds to the student's account at the school or paying the borrower directly (via check or other means). It is critical that the disbursement date and disbursement amount are reported accurately. Interest accrues from the date of each actual disbursement, so if the date or amount is different than what was previously reported, a correction must be submitted through a disbursement adjustment.

### **Contact Information**

If you have questions about Direct Loan funding, contact the COD School Relations Center at 1-800-848-0978. You may also email [CODSupport@ed.gov](mailto:CODSupport@ed.gov).